

Amy Frazier

<p style="text-align: right;">Page 46</p> <p>1 period. And then at the bottom there appears 2 to be a listing of what is labeled major local 3 audit clients, open paren, healthcare and other 4 relevant organizations, close paren. 5 Do you see that? 10:12:13 6 A. Yes. 7 Q. Would you take a moment and read to 8 yourself those major local audit clients and 9 let me know if there are any, other than the 10 ones you've already mentioned to me, for whom 10:12:26 11 you provided audit services. 12 A. As I guess a point of 13 clarification, the Graduate and Allegheny 14 Valley and Forbes would have all been at some 15 point a part of AHERF. 10:13:22 16 Q. In subsequent years, later years, 17 correct? Is that right? 18 A. Yes. Yes. 19 Q. Are there any other healthcare 20 clients listed there for whom or for which you 10:13:32 21 provided services? 22 A. On the University of Pennsylvania 23 Health System, the compliance A-133 audits I 24 was involved with as part of the overall 25 University of Pennsylvania audit. 10:13:47</p>	<p style="text-align: right;">Page 48</p> <p>1 1995 and later, cost report -- or cost rate 2 accounts for each fiscal year for each 3 third-party payor that was involved in cost 4 rate reimbursement, is that right? 5 MR. RYAN: Objection to form. 10:15:32 6 THE WITNESS: I'm sorry, can that 7 be repeated? 8 (Record read.) 9 A. No. 10 Q. How is it not right? 10:15:53 11 A. There were certain payors that were 12 no longer under that type of an arrangement 13 because the perspective payment system had been 14 implemented. 15 There are other also other 10:16:08 16 third-party payors that they have agreements 17 with that they wouldn't necessarily be settling 18 at the end of the year a liability or a 19 receivable. 20 Q. Then I think you misunderstood my 10:16:18 21 question. My question was simpler. 22 For each third-party payor that 23 AHERF settled with, as you put the term, with 24 respect to a cost rate or cost report and 25 had -- each of those had cost rate accounts for 10:16:35</p>
<p style="text-align: right;">Page 47</p> <p>1 Q. Thank you. You can put that one 2 aside. 3 We mentioned a few moments ago the 4 cost rate adjustment accounts that healthcare 5 organizations like AHERF had. 10:14:10 6 Do you recall that? 7 A. Yes. 8 Q. Can you explain for me your 9 understanding of what a cost rate account 10 reflects at a healthcare organization like 10:14:19 11 AHERF, at least in the time frame for which you 12 worked on AHERF audits? 13 A. My understanding is a difference 14 between -- it's essentially a settlement 15 account between negotiated rates that an 10:14:37 16 organization or AHERF had with its payors and 17 what their ultimate reimbursement amounts would 18 be based on various attributes that the 19 organization may have, such as medical 20 education programs or capital or -- so it was a 10:14:58 21 settlement account with the government payors 22 and other payors to come to an agreement to 23 what their final reimbursement would be for a 24 given fiscal year. 25 Q. So AHERF would have, in fiscal year 10:15:16</p>	<p style="text-align: right;">Page 49</p> <p>1 each fiscal year, is that right? 2 A. No. 3 Q. How was that wrong? 4 A. Just given that there were changing 5 reimbursement requirements. They may have had 10:16:53 6 fiscal years that they had settlement items, 7 but there were certain other fiscal years that 8 they would not because of the changes in the 9 perspective payment system. 10 Q. I understand that exception. 10:17:02 11 My question is, if you had a cost 12 report that had not been settled and you were a 13 third-party payor of AHERF's, AHERF would have 14 on its books a cost rate account for you for 15 that third-party payor, is that correct, for a 10:17:16 16 given fiscal year? 17 A. No. 18 Q. Why is that not the case? 19 A. There may have been years where no 20 amounts were due or payable or -- I'm not sure 10:17:23 21 what you mean by account. 22 Q. If you had an outstanding account 23 that had not been finally settled, would you 24 have a cost rate account at AHERF if you were a 25 third-party payor? 10:17:37</p>

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<p style="text-align: right;">Page 202</p> <p>1 A. I don't recall being a part of 2 looking, you know, in an effort to look for 3 this document. 4 - - - - - 5 (Thereupon, Deposition Exhibit 4419 6 was marked for purposes of 7 identification.) 8 - - - - - 9 Q. Miss Frazier, I'm handing you 10 what's been marked as 4419. It is a document 15:50:15 11 with the title Bond Covenant Review, AGH, and 12 MCPH are headings along the left-hand margin. 13 Is that much right? 14 A. Yes. 15 Q. Why don't you take a moment and 15:50:33 16 look at this one-pager and tell me if you've 17 seen it before today. 18 I'm sorry. 19 A. That's okay. 20 Q. Sometimes when I'm looking down, I 15:51:37 21 can't tell that you're finished. Please feel 22 free to shake me. 23 A. Okay. 24 Q. Do you believe that you prepared 25 this document, Exhibit 4419? 15:51:45</p>	<p style="text-align: right;">Page 204</p> <p>1 A. No. 2 Q. Do you know whose it is? 3 A. No. Whoever's initials are in the 4 top it appears to be the same. 5 Q. KDM. Do you know whose initials on 15:54:03 6 the engagement team in '97 might have been KDM? 7 A. Kim Metz. 8 Q. Thank you. 9 Do you recall her to have been 10 involved in debt covenant auditing or debt 15:54:18 11 covenant compliance auditing? 12 A. No, I don't recall. 13 Q. I'm going to ask you to flip to 14 page 20813, the second page of the exhibit, 15 under the heading Allegheny General Hospital 15:54:43 16 Obligated Group. 17 Are you there? 18 A. Yes. 19 Q. In subsection (b) -- I'm sorry, 20 subsection (a) refers to something called a 15:54:57 21 Master Trust Indenture dated April 7, 1993. Is 22 that right? 23 A. Yes. 24 Q. It says in handwriting next to it, 25 have, H A V E. Is that right? 15:55:11</p>
<p style="text-align: right;">Page 203</p> <p>1 A. I don't recognize it. 2 Q. Have you seen it before today? 3 A. No. 4 Q. Step ten beneath the AGH category 5 reads, "Due to covenants applicable to the 1995 15:52:05 6 A ampersand B debt assurance fall under the 7 Master Trust Indenture as amended, question 8 mark. There is a reference to a loan agreement 9 95 A dash do we have this." Then it reads, 10 "It's in the pink books given to us before" in 15:52:26 11 parentheses. 12 Do you have any idea what that item 13 ten means as you sit here today? 14 A. No, I don't. 15 Q. Do you recall anything about 15:52:45 16 missing bond documents in connection with debt 17 compliance auditing at AHERF in any fiscal 18 year? 19 MR. RYAN: Objection. 20 A. No, I don't. 15:52:59 21 Q. Handing you another exhibit, Miss 22 Frazier, this one 4005, 4005, which has a face 23 page with the exhibit sticker that reads AGH 24 debt covenant calculation, 6-30-97. Is that 25 your handwriting? 15:53:43</p>	<p style="text-align: right;">Page 205</p> <p>1 A. That's the word, yes. 2 Q. If you skip down to Roman numeral 3 II, we have Delaware Valley Obligated Group, is 4 that right, as a heading? 5 A. Yes. 15:55:22 6 Q. We have something under A listed, 7 "Master Trust Indenture and First Supplemental 8 MTI dated May 15, '96." Is that right? 9 A. Yes. 10 Q. Next to it we have in somebody's 15:55:37 11 handwriting the words, the word, rather, have, 12 H A V E. Is that right? 13 A. Yes. 14 Q. And then next to item one, Roman 15 numeral number I B, under the Allegheny General 15:55:50 16 Hospital Obligated Group, we have the listing 17 of the Morgan Guaranty Reimbursement and 18 Security Agreement dated April 1, 1995 that 19 we've just looked at as Exhibit 327; is that 20 right? 15:56:07 21 A. Yes. 22 Q. And we don't have the word "have" 23 next to this letter B or this Morgan Guaranty 24 reference. Am I right? 25 A. That word is not next to it, 15:56:17</p>

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<p style="text-align: right;">Page 206</p> <p>1 correct.</p> <p>2 Q. Do you know whose handwriting the</p> <p>3 word "have" -- in whose handwriting the word</p> <p>4 "have" has been written?</p> <p>5 A. It looks like Sue Gilbert's. 15:56:36</p> <p>6 Q. And Sue Gilbert was not a C&L</p> <p>7 employee, is that right, or was she?</p> <p>8 A. She was not.</p> <p>9 Q. She was employed by whom?</p> <p>10 A. AHERF. 15:56:49</p> <p>11 Q. Do you recall seeing this document,</p> <p>12 this page of the work papers before today?</p> <p>13 A. No, I don't.</p> <p>14 Q. Does seeing the word have written</p> <p>15 where they are and seeing the absence of the 15:57:26</p> <p>16 words -- the word have next to the Morgan</p> <p>17 Guaranty agreement here refresh your</p> <p>18 recollection that someone was looking for a</p> <p>19 copy of this document at any -- during any</p> <p>20 audit year at AHERF? 15:57:41</p> <p>21 MR. RYAN: Objection.</p> <p>22 A. No. In fact, when I read the first</p> <p>23 sentence of this page, it actually -- I recall</p> <p>24 more of a discussion with Sue Gilbert on</p> <p>25 evaluating which debt covenant letter she had 15:57:59</p>	<p style="text-align: right;">Page 208</p> <p>1 objection.</p> <p>2 Q. Did you see her write these words</p> <p>3 on this document?</p> <p>4 MR. JONES: Isn't that better?</p> <p>5 MR. RYAN: It is. Thank you. 15:59:09</p> <p>6 A. I don't recall.</p> <p>7 Q. But you're recalling, however, a</p> <p>8 conversation in which she asked you about the</p> <p>9 status of what she expected by way of debt</p> <p>10 compliance letters from C&L? 15:59:24</p> <p>11 A. Yes.</p> <p>12 Q. Do you recall there was some reason</p> <p>13 that there was a delay in delivering a debt</p> <p>14 compliance letter to AHERF regarding the Morgan</p> <p>15 Guaranty security -- Reimbursement and Security 15:59:37</p> <p>16 Agreement?</p> <p>17 A. No, I don't recall. There were</p> <p>18 some that were all sent at the same time. I</p> <p>19 just don't know which ones those were.</p> <p>20 Q. I'm going to ask you to skip with 16:00:03</p> <p>21 me to page 20834. Are you there?</p> <p>22 A. Yes.</p> <p>23 Q. Is any of the handwriting on this</p> <p>24 page yours?</p> <p>25 A. Yes, all of it is. 16:00:30</p>
<p style="text-align: right;">Page 207</p> <p>1 from us and that this was being -- there was</p> <p>2 something she was using as a tickler list to</p> <p>3 keep track of the letters that she needed from</p> <p>4 Coopers & Lybrand.</p> <p>5 Q. So you believe that the words have 15:58:11</p> <p>6 may be Miss Gilbert's attempt to record debt</p> <p>7 covenant or debt compliance letters that she</p> <p>8 had received at some point and the ones she had</p> <p>9 not yet received, is that right?</p> <p>10 A. Yes, and particularly because of 15:58:28</p> <p>11 the in lieu of agreed upon procedures reference</p> <p>12 that's being denoted under the section three.</p> <p>13 Q. Under section regarding AUMC?</p> <p>14 A. Yes.</p> <p>15 Q. So you recall some conversation 15:58:40</p> <p>16 where Miss Gilbert was asking you about the</p> <p>17 status or she was recording the status of</p> <p>18 AHERF's receipt of debt compliance letters.</p> <p>19 Were you with her when she wrote this or do you</p> <p>20 just have a supposition that that may be if 15:58:54</p> <p>21 this is indeed her handwriting that she may</p> <p>22 have written this at the time she and you</p> <p>23 talked?</p> <p>24 MR. RYAN: Objection to form.</p> <p>25 MR. JONES: That's a good 15:59:05</p>	<p style="text-align: right;">Page 209</p> <p>1 Q. Do you know why you wrote the word</p> <p>2 adjusted under category D regarding the Morgan</p> <p>3 Guaranty Trust debt instrument and maintaining</p> <p>4 a consolidated unrestricted fund balance of at</p> <p>5 least \$160,000? 16:00:48</p> <p>6 A. I don't recall why I wrote that</p> <p>7 specific word, but I recall the reference above</p> <p>8 relative to adjusted to include ASRI.</p> <p>9 Q. Why don't you tell me what you do</p> <p>10 recall about that, that reference. 16:01:17</p> <p>11 A. Just that there was -- that they</p> <p>12 had pulled ASRI out of the debt agreement</p> <p>13 during the year and there needed to be some</p> <p>14 type of adjustment made to the actual letter</p> <p>15 and the calculation related to it. So I just 16:01:30</p> <p>16 remember, generally speaking, us calling it to</p> <p>17 simplify our discussion as the adjusted</p> <p>18 calculation.</p> <p>19 Q. Do you recall that then there was</p> <p>20 some debt covenant or debt agreement 16:01:46</p> <p>21 modification that removed ASRI as an obligor,</p> <p>22 is that what you're suggesting, or somebody who</p> <p>23 was obligated for repayment on the debt</p> <p>24 instrument?</p> <p>25 A. I don't recall exactly what 16:02:04</p>

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<p style="text-align: right;">Page 210</p> <p>1 happened from a debt standpoint. I just 2 remember there being a change. I just -- I 3 don't know exactly what it was. I don't 4 remember what it was. 5 Q. It was a change in the agreement 16:02:13 6 and it was a change that involved ASRI is what 7 you remember? 8 A. It was a change in the organization 9 structure of AGH pulling ASRI out of the 10 consolidated -- Obligated Group. How that 16:02:28 11 related to the agreements and -- I just don't 12 remember. 13 Q. Do you recall, as you sit here 14 today, that the Morgan Guaranty Reimbursement 15 and Security Agreement required backing out 16:02:41 16 certain items from the unrestricted fund 17 balance calculation? 18 A. As I sit here today, I don't recall 19 how to get to that calculation, no. 20 Q. Let me ask you to flip to page 16:03:12 21 20845. Is the handwriting on this page yours? 22 A. No. 23 Q. Do you know whose it is? 24 A. No, I don't. 25 Q. Do you see under AGH general fund 16:03:35</p>	<p style="text-align: right;">Page 212</p> <p>1 beneath that. Do you see that? 2 A. Yes. 3 Q. Do you see a subparagraph little 4 (y) in parentheses much like the little (y) in 5 parentheses we just looked to at page 845? 16:05:29 6 You can put those side-by-side for 7 me. I think that would be helpful. 8 Do you see in the loan agreement, 9 itself, Exhibit 327, that the little (y) 10 language reads -- why don't you read that for 16:05:44 11 me, just the little (y) language. 12 A. "All loans to and other investments 13 in affiliates which are not members of the 14 Obligated Group and all equity investments and 15 persons which are not subsidiaries and." 16:05:56 16 Q. Do you see that that amount, among 17 other things, is to be backed out of the 18 calculation for the consolidated unrestricted 19 fund balance in the text above it? 20 A. Yes, it says less the amount of and 16:06:23 21 refers to each of those items. 22 Q. Now I'm asking you to flip back to 23 the 4005 set of debt covenant calculations in 24 Coopers & Lybrand's work papers, in particular 25 page 845, can you read for us the paraphrase, 16:06:42</p>
<p style="text-align: right;">Page 211</p> <p>1 balance before adjustments there's a phrase, 2 less colon Y, in parentheses, equity 3 investments in loans to persons which are not 4 subsidiaries. Do you see that? 5 A. Yes. 16:03:51 6 Q. Do you recall that that subtraction 7 was involved in the debt covenant calculation 8 regarding the unrestricted fund balance? 9 A. I don't recall, no. 10 Q. Let me ask you to flip back to 16:04:21 11 Exhibit 327, the actual loan document, the 12 Morgan Reimbursement and Security Agreement. 13 In particular, to the Bates page 14 that ends with the number 29. 15 A. 16929? 16:04:55 16 Q. Yes. 17 Are you there? 18 A. Yes. 19 Q. It's page 35 of the original 20 document, apparently? 16:05:00 21 A. Yes. 22 Q. Here we have in the heading B 23 little Roman numeral ii a definition of the 24 consolidated unrestricted fund balances and 25 then some descriptive language that goes 16:05:17</p>	<p style="text-align: right;">Page 213</p> <p>1 apparently of paragraph (y) that exists there? 2 It says less colon? 3 A. "Parentheses Y, parentheses equity 4 investments in and loans to persons which are 5 not subsidiaries, colon." 16:06:55 6 Q. The language doesn't track exactly, 7 does it? 8 A. No. 9 Q. Do you have any idea why that is? 10 A. No. 16:07:21 11 Q. Do you recall ever learning that 12 that was the case, that the work papers at C&L 13 had language for subparagraph (y) here that was 14 different than the actual loan agreement? 15 MR. RYAN: Objection to form. 16:07:37 16 A. I'm sorry, can you repeat that? 17 Q. No, but I bet I can have it read 18 back. 19 (Record read.) 20 A. No, I don't -- I don't recall. 16:08:02 21 Q. Do you ever recall learning that 22 there were debt covenant calculations run with 23 respect to the Morgan Guaranty unrestricted 24 fund balance that did not back out amounts 25 loaned or invested in affiliates? 16:08:18</p>

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<p style="text-align: right;">Page 234</p> <p>1 intercompany balances did not represent loans 2 in the term of a, you know, repayment and an 3 agreement schedule. They represented 4 day-to-day cash transactions that were 5 occurring throughout the AHERF organization and 16:50:12 6 that that would not be something that would be 7 backed out of the calculation. 8 Q. Oh, so you don't think the due from 9 affiliate was a loan -- as you sit here today, 10 you don't think that due from affiliate amount 16:50:29 11 owed to AGH from Delaware Valley Obligated 12 Group hospitals was a loan for purposes of the 13 debt instrument, the Morgan Guaranty debt 14 instrument we looked at earlier this afternoon, 15 is that right, is that what you're telling me? 16:50:44 16 MR. RYAN: Objection. 17 A. What I'm stating is that we 18 considered the amount outstanding for AGH debt 19 covenants as a whole and how that related to 20 their covenants and whether or not those would 16:51:07 21 be collectible in the normal course of business 22 as part of how they settle their cash 23 transactions. 24 Q. But separate and apart from that, 25 are you telling me now, which I thought I 16:51:20</p>	<p style="text-align: right;">Page 236</p> <p>1 agreements that you would back out affiliate 2 balances, so it wasn't that it was an 3 uncommon -- it wouldn't be unreasonable for me 4 to or us as a team to assess whether or not 5 that needed to be considered. And I recall, 16:52:48 6 broadly speaking, regarding AGH covenants, 7 evaluating the collectibility of the receivable 8 and specifically including and discussing that 9 with management and including that in the rep 10 letter that they signed, that that would not 16:53:06 11 be -- that they would be settled in the normal 12 course of business and that it would not impact 13 the debt covenant. 14 So as I sit here today, my 15 understanding today is I would still believe in 16:53:19 16 that those conclusions that we reached at that 17 time based on even reading that document today. 18 Q. Let me ask you this. What testing 19 did you do in any audit year to determine 20 whether the amount owed from DVOG to AGH 16:53:34 21 through intercompany transactions or 22 intercompany accounting -- accounts was 23 collectible? 24 A. I don't recall earlier years 25 knowing that the balances had not been as 16:53:53</p>
<p style="text-align: right;">Page 235</p> <p>1 heard, that you folks at Coopers & Lybrand did 2 not think the due from affiliates amounts that 3 were growing at the AGH Hospital needed to be 4 backed out of the unrestricted fund balance in 5 the Morgan Guaranty agreement marked as Exhibit 16:51:40 6 327? 7 MR. RYAN: Objection. 8 Mischaracterizes the testimony. 9 MR. JONES: I just asked her if 10 that's what her testimony was. 16:51:46 11 MR. RYAN: You stated you thought 12 she said it, so I'm objecting to that 13 statement. 14 A. I don't recall the actual work of 15 the Morgan Guaranty area, but what I recall is 16:51:58 16 discussions as it related, broadly speaking, to 17 AGH covenants and that the intercompany 18 balance, the due to and due from affiliates 19 needed to be evaluated for collectibility 20 versus it being a loan that would need to be 16:52:16 21 considered for backing out of debt covenant 22 requirements. 23 Not because I specifically remember 24 Morgan Guaranty, but in the healthcare 25 industry, I've certainly seen other loan 16:52:29</p>	<p style="text-align: right;">Page 237</p> <p>1 material but as, you know, high a number, big 2 number as it certainly was in 1997. But I do 3 recall both inquiries of management, the 4 specific representation that we obtained from 5 management that they would be able to repay 16:54:16 6 those amounts, as well as evaluating the cash 7 flow availability at the entities that would 8 potentially need to fund that amount and their 9 ability to do so. 10 Q. Hold on for one minute. 16:54:35 11 So you recall nothing that you did 12 or Coopers & Lybrand did in 1996 to determine 13 whether or not the intercompany owed to AGH -- 14 intercompany due from affiliates owed to AGH 15 from DVOG hospitals was collectible, is that 16:54:51 16 right? 17 A. I just don't recall what the 18 balances were. Knowing that there were 19 stand-alone reports, there would have been -- I 20 do recall on -- that there was some level of 16:55:02 21 work done because there was a separate report 22 issued for the physician practice plans. 23 Q. AIHG? 24 A. Yes. 25 Q. Did you do the work? 16:55:21</p>

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<p style="text-align: right;">Page 238</p> <p>1 A. I don't remember if I did the work. 2 I was a manager, so I don't recall if I did the 3 actual audit work, but I do recall the process 4 of needing to get some level of representation 5 regarding the collectibility of those accounts. 16:55:40 6 So I believe there was something done, just 7 knowing that there were individual stand-alone 8 reports and reconciling whether or not 9 intercompany's eliminated on a consolidated 10 basis, those are fairly standard procedures 16:55:57 11 that would be done in any year. 12 Q. Maybe I can be more specific. 13 Do you recall yourself being 14 involved in any work to test the collectibility 15 of the amount owed by DVOG hospitals to AGH 16:56:08 16 through intercompany accounts at fiscal 17 year-end 1996? 18 A. I don't recall whether I had -- 19 well, I recall doing some level of work in the 20 review of the DVOG financial statements because 16:56:41 21 of the consolidated cash account and how cash 22 was recorded on the DVOG entities, which 23 included evaluating the classification of that 24 amount, and how it was reported, and would have 25 contemplated the discussing how those amounts 16:57:07</p>	<p style="text-align: right;">Page 240</p> <p>1 from anywhere other than DVOG entities or AIHG 2 that were owed to AGH in 1996? 3 A. ASRI. 4 Q. Anybody else, any other enterprise 5 owed to AGH? 16:58:47 6 A. ASRI actually I recall some direct 7 transactions between the two of them because 8 they were an affiliated Obligated Group. But I 9 don't recall other than that any that are 10 directly between AGH and other entities. 16:58:59 11 Q. My question remains, what do you 12 recall that you did, if anything, to directly 13 test the collectibility of the amounts that 14 DVOG entities owed AGH through intercompany 15 accounts for fiscal year 1996? 16:59:17 16 MR. RYAN: Objection. Asked and 17 answered. 18 A. I recall the assessment of the cash 19 and how it was reported on the DVOG entities, 20 which I know some portion over time related to 16:59:33 21 AGH just by virtue of doing the math. 22 Q. AGH as a source, you mean? 23 A. Correct. 24 And I remember -- I recall looking 25 at that cash balance and understanding -- 16:59:54</p>
<p style="text-align: right;">Page 239</p> <p>1 would be settled, which I -- because we had 2 discussions about how they would be settled 3 plays -- I know that plays into the 4 collectibility. 5 So I have this general recollection 16:57:24 6 of focusing on DVOG intercompany balances and 7 how it relates to the cash and how it can be 8 repaid. 9 But how it relates specifically to 10 AGH is not clear because everything 16:57:36 11 consolidates up through the AHERF parent 12 account. It is not a direct due to/due from 13 between AGH and DVOG. 14 Q. What do you mean by amounts -- how 15 amounts were settled? 16:57:48 16 A. AHERF, the parent, had a 17 consolidated cash treasury function, and this 18 how balances or amounts due to/due from were 19 repaid or collected went through this AHERF 20 parent account. So I don't believe you could 16:58:14 21 identify direct association of amounts on AGH 22 that related to entities within DVOG or AIHG. 23 It just all flushed up through the parent 24 account balances. 25 Q. Do you recall any balances coming 16:58:33</p>	<p style="text-align: right;">Page 241</p> <p>1 trying to understand how that amount would be 2 repaid, if it would be repaid, and part of that 3 was playing into how to report it within the 4 financial statements, current, noncurrent, 5 cash. So that gets to the heart of 17:00:16 6 collectibility. 7 Q. How was it categorized in '96, the 8 amount owed to AGH by DVOG hospitals, current, 9 noncurrent, cash, how? 10 A. Since it, as I said, it's not a 17:00:30 11 direct amount due to AGH, it is an amount that 12 is a source, it was actually due to/due from 13 affiliates, which I believe when you go through 14 the detail relates to AHERF, not AGH, but I 15 don't recall what the classification is. 17:00:44 16 Q. Did you become comfortable at 17 fiscal year-end 1996 that DVOG had the income 18 cash flow and other resources to repay the 19 amounts owed to AGH through intercompany 20 accounts? 17:00:59 21 A. I recall there not being concern 22 over their collectibility or being able to 23 repay their amounts due to AHERF which may 24 refund AGH, but it was payable to AHERF. 25 Q. All right. 17:01:16</p>

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff,

vs.
PRICewaterhouseCOOPERS,
LLP,

Defendant.

Civil Action
No. 00-684

Continued Videotaped Deposition of
AMY FRAZIER, called for examination under the
Applicable Rules of Federal Civil Procedure,
taken before me, Michele E. Eddy, a Registered
Professional Reporter and Notary Public in and
for the State of Ohio, pursuant to notice and
stipulations of counsel, at the offices of
Jones Day, 222 East 41st Street, Suite 400, New
York, New York, on Wednesday, the 9th day of
June, 2004, at 9:00 a.m.

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VOLUME II

- - - - -

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1 Q. I didn't say that there was a
2 restatement or that you opined that there
3 should be one.
4 I said were you ever involved in
5 any work involving the potential for a 13:27:28
6 restatement of the '97 financial statements
7 that somehow involved these five trusts?
8 A. Yes.
9 Q. Thank you.
10 So you know what the Lockhart 13:27:38
11 trusts are as you sit here today?
12 A. Them as an aggregate, yes.
13 Q. When I speak of the Lockhart trusts
14 for the rest of our deposition, I'm going to
15 speak of these five. Can we have that 13:27:49
16 understanding?
17 A. Yes.
18 Q. Thank you.
19 The first note that Mr. Panucci or
20 him or someone yet unnamed put into this 13:28:05
21 schedule reads, "C&L reviewed the endowment
22 agreements and noted the principal was
23 permanently restricted and the income was
24 unrestricted. C&L noted part of the income was
25 kept as temporary restricted. The client has 13:28:21

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1 made the adjustment. See below."
2 Do you see that?
3 A. Yes.
4 Q. Do you know what adjustment he's
5 referring to there? 13:28:29
6 MR. RYAN: Are you asking her
7 independently or as she interprets the work
8 paper?
9 MR. JONES: If she knows it from
10 any source of information what adjustment he's 13:28:44
11 referring to.
12 A. I don't recall.
13 Q. So as you read this schedule today,
14 you can't tell me what he's referring to
15 either, is that right? 13:28:58
16 A. I'm not sure, but he does refer to
17 adjustments in other sections within this
18 paper.
19 Q. On the second page he refers to an
20 adjustment, is that right, toward the middle of 13:29:40
21 the page?
22 A. Yes.
23 Q. Do you see any other place that he
24 refers to an adjustment?
25 A. Not on this page -- these pages, 13:30:11

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1 no.
2 Q. When he says C&L reviewed the
3 endowment agreements, do you know who did that?
4 A. I don't recall if he personally
5 looked at all of them or whether it was Patty, 13:30:31
6 but, between the two of them, there were
7 endowment agreements that at least were made
8 available to them for their testing purposes.
9 Q. How do you know that, they told
10 you? 13:30:47
11 A. I recall seeing the binders and in
12 some cases showing me some points relative to
13 those binders.
14 Q. What do the binders look like?
15 A. At least as it relates to the 13:31:02
16 western side of the state, there were black
17 binders. On the east, I'm not sure if they
18 were in binders or there were files, but there
19 were also documents made available.
20 Q. Do you recall seeing -- knowing how 13:31:18
21 many black binders there were on the western
22 side of the state -- for the western side of
23 the state?
24 A. No, I don't recall.
25 Q. Do you recall yourself seeing any 13:31:33

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1 of the Lockhart trusts, as we've now defined
2 the term, in connection with your '96 audit
3 work?
4 A. I don't recall.
5 Q. Do you recall ever learning from 13:31:46
6 Mr. Panucci or his colleague Patty that they
7 had reviewed the language of the Lockhart Trust
8 as we've now defined them themselves?
9 A. I recall a discussion with Mark
10 Panucci about AHERF endowments, not necessarily 13:32:09
11 using the term Lockhart trusts as we've now
12 defined them.
13 Q. What do you recall about that
14 conversation?
15 A. It was initially a conversation 13:32:22
16 where he shared a view of AHERF management on
17 how to record the AHERF endowments and which
18 then followed with the conversation with Jack
19 Lyden to actually discuss what they were
20 proposing. 13:32:46
21 Q. We'll come back to that view
22 sharing. But my question is, do you ever
23 recall learning from Mr. Panucci that he had
24 reviewed each of the five Lockhart trusts in
25 connection with his '96 audit work? 13:32:57

32 (Pages 382 to 385)

<p style="text-align: right;">Page 386</p> <p>1 A. I don't know if it was each of the 2 five trust documents, recognizing that he was 3 performing testing on their controls. But he 4 had documents or certain information available 5 during that discussion that he and I have had. 13:33:16 6 I just don't know which ones or all or whether 7 it was a representative part of the population. 8 Q. I'm sorry, I interrupted you. 9 A. Whether it represented the 10 population that he was reviewing. 13:33:29 11 Q. Do you believe that he should have 12 reviewed each of the five Lockhart trusts as 13 we've defined them, in connection with his '96 14 audit work? 15 MR. RYAN: Objection. 13:33:39 16 A. No, given that he was performing a 17 test of controls of a process that AHERF 18 management had implemented. 19 Q. Do you know what he means in his 20 note about principal when he says reviewed the 13:33:52 21 -- "C&L reviewed the endowment agreements and 22 noted the principal was permanently 23 restricted." 24 Do you know what principal is in 25 this schedule? And if it's something I need to 13:34:06</p>	<p style="text-align: right;">Page 388</p> <p>1 Q. The black binders that you referred 2 to for the western region, would you include 3 within the western region AHERF the parent 4 company in your understanding of western 5 region? 13:35:24 6 A. Yes. 7 Q. Do you recall ever learning from 8 whom or from what source Mr. Panucci or 9 Patty -- I've lost her last name -- 10 A. Francioni. 13:35:35 11 Q. -- Francioni received the black 12 binders? 13 A. I don't remember who they had 14 gotten them from in the past. I just don't 15 recall. 13:35:53 16 Q. Do you know what -- do you have any 17 recall from '96 about what Mr. Panucci meant 18 with the term income in tick mark A? This is 19 recall from your work in '96. 20 A. I don't have a recollection based 13:36:15 21 on this schedule and what he wrote here. 22 Q. Reading the schedule today, do you 23 have an interpretation of what the word income 24 means? 25 A. Without referring to the actual 13:36:46</p>
<p style="text-align: right;">Page 387</p> <p>1 ask him, you can tell me that. 2 MR. RYAN: You're asking what the 3 word means or where in the schedule the numbers 4 can be found? I'm confused. 5 MR. JONES: If that's a part of her 13:34:20 6 answer, that's fine. I asked her what the word 7 principal means to her. 8 MR. RYAN: Okay. 9 A. You're referring to tick mark A? 10 Q. Yes, I am. 13:34:28 11 A. I don't know obviously precisely 12 what he meant when he wrote it, but I have a 13 general understanding of that term in the 14 context of endowments. 15 Q. What do you think it means in your 13:34:43 16 read of it now since you don't recall the 17 document from '96? 18 A. The original corpus or -- the 19 original balance that was contributed by the 20 donor. 13:34:56 21 Q. So the amounts, perhaps, under the 22 column contribution on the far right-hand 23 margin of page one -- or page two of the 24 exhibit? 25 A. Yes. 13:35:12</p>	<p style="text-align: right;">Page 389</p> <p>1 agreements or some other information at the 2 time, I'm not sure what -- it could mean 3 several components. 4 Q. The next tick mark B reads, "C&L 5 reviewed the endowments." 13:37:13 6 It says again that C&L reviewed the 7 endowments, right? 8 A. Yes. 9 Q. And noted -- then it continues. 10 And noted there were general income 13:37:23 11 restrictions on the items. "Management took 12 the current income as unrestricted since the 13 amount would have been expensed in the current 14 year and any income from the prior years was 15 kept as temporary restricted." 13:37:42 16 Have I read the first sentence or 17 so accurately? 18 A. Yes. 19 Q. Do you know what income means in 20 this tick mark? 13:37:52 21 A. Today or -- 22 Q. Yes. First, do you have any 23 recollection from '96? 24 A. I do not have a recollection from 25 '96. 13:38:05</p>

33 (Pages 386 to 389)

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1 Q. Do you have an interpretation of it
2 today?
3 A. Not without the facts and
4 circumstances that existed at that time. I
5 would need that information. 13:38:17
6 Q. The next sentence reads -- the next
7 sentence from tick mark B, "The reason
8 management was being conservative and could not
9 take the approach, the entire amount has been
10 expensed. C&L agrees with this treatment." 13:38:32
11 Do you see that?
12 A. Yes.
13 Q. Do you recall C&L agreeing with the
14 treatment so described in 1996?
15 A. Generally speaking, yes. 13:38:49
16 Q. What do you recall about that?
17 A. I recall that the interpretation of
18 the agreements were not clear as to whether or
19 not the income was available for operations.
20 It could be perceived that it would be and 13:39:16
21 that, as a result, they felt that it was more
22 conservative to classify items as temporarily
23 restricted than to interpret the agreement as
24 being fully unrestricted.
25 The word expensed, I'm not sure if 13:39:41

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1 that's necessarily the right -- the right term,
2 but the -- you know, just broadly speaking,
3 that they believed that these had some
4 potential to be used for operations, but
5 because it was not clear in the agreement that 13:40:01
6 they should be conservative in how they treated
7 them.
8 Q. Again, you didn't review the
9 agreements yourself to determine whether you
10 thought it was clear or not, is that right? 13:40:10
11 A. I don't recall if I had the actual
12 agreements in my hand. I recall this
13 discussion with Jack Lyden and even a follow-up
14 discussion, actually, with Al Adamczak to talk
15 about the language that was in the AHERF 13:40:29
16 agreements as I knew them.
17 Q. Do you recall any of the language
18 to which you refer now?
19 A. Just that income was not clear and
20 that the general purposes of the organization 13:40:49
21 was part of that terminology.
22 Q. When you say income was not clear,
23 or restrictions on income was not clear, or the
24 interpretations related to income was not
25 clear, what do you mean by income? 13:41:05

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1 A. The availability of unrestricted --
2 I'm sorry, unrealized, realized gains and
3 interest income, dividends and earnings.
4 Essentially the cumulative earnings was how --
5 was the context of the discussion that it was 13:41:28
6 everything in that pile.
7 Q. So you are defining income in your
8 term to include anything that wasn't the
9 original contribution?
10 A. In this particular situation. 13:41:39
11 Obviously there are others that it could have
12 been defined differently where it specifically
13 excluded something, but in this circumstance my
14 understanding of what was in question was
15 the -- 13:41:52
16 Q. In this circumstance is the five
17 Lockhart trusts is what I'm referring to.
18 A. Well, the trusts -- the majority of
19 the trusts on AHERF because I wasn't -- I was
20 not aware of them as the Lockhart trusts. 13:42:02
21 Q. So there could have been others?
22 A. It was those at AHERF, so to the
23 extent that this represented an entirety of
24 AHERF.
25 Q. I see. The point you're making is 13:42:14

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1 those that were held at the books of AHERF, the
2 parent?
3 A. Correct.
4 Q. Whether or not it was justified
5 Lockhart trusts? 13:42:24
6 A. That's correct.
7 Q. If there were others, your
8 understanding of the term income applied to
9 those others as well, others besides the five
10 Lockhart trusts held on the accounts at AHERF, 13:42:32
11 the parent?
12 I withdraw the question. I think
13 we understand each other.
14 In any event, your definition of
15 income was everything but the original 13:42:50
16 contribution?
17 A. In the context of our discussions
18 on this, yes.
19 Q. You understood the point person at
20 AHERF who had been involved in the 13:43:15
21 classifications for the AHERF parent endowments
22 was Mr. Lyden?
23 A. Mr. Lyden and Mr. Adamczak.
24 Q. Was there any discussion about
25 whether the use of the classification 13:43:31

34 (Pages 390 to 393)

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1 temporarily restricted would create a cushion
 2 to enhance earnings in future years?
 3 MR. RYAN: Objection to form.
 4 A. There was no discussion about that.
 5 Q. Did you think that might be the 13:43:48
 6 case?
 7 A. Absolutely not.
 8 Q. Did that turn out to be the case,
 9 to your knowledge?
 10 A. No. 13:43:56
 11 Q. Do you recall ever making an
 12 inquiry of any financial institution about
 13 receiving copies of endowment agreements which
 14 endowments were held on the accounts of AHERF,
 15 the parent? 13:44:23
 16 THE WITNESS: I'm sorry, can you
 17 repeat that?
 18 (Record read.)
 19 A. No, because I believe they were --
 20 they, AHERF, had been undergoing that process 13:44:43
 21 themselves.
 22 Q. Why did you believe that?
 23 A. They had a number of steps that
 24 they had been implementing throughout the
 25 entire process of adopting the new accounting 13:44:55

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1 pronouncement, which included gathering all of
 2 the documents, reviewing them with their legal
 3 counsel in-house, and evaluating the impact of
 4 the new standards. So it was a process that
 5 they had undertaken. 13:45:11
 6 Q. Well, my question is, did you
 7 actually hear from anybody that AHERF had gone
 8 to financial institutions and requested copies
 9 of underlying endowment agreements for the
 10 endowments held at AHERF, the parent? 13:45:21
 11 A. I believe your original question
 12 was more directed to me, whether I personally
 13 did.
 14 Q. It certainly was. You referred me
 15 to AHERF personnel. That's why we're coming 13:45:29
 16 back to that.
 17 Do you ever recall hearing from
 18 anybody that AHERF personnel were instructed or
 19 had actually themselves gone out and asked for
 20 copies of endowment agreements from financial 13:45:40
 21 institutions in connection with this '96
 22 endowment review?
 23 A. I don't know if I -- I don't recall
 24 if I knew that. I know they were gathering
 25 documents. I'm not sure of all the sources. 13:45:53

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1 Q. My question is now, back to you,
 2 did you ever yourself make an inquiry, call,
 3 visit a financial institution and ask for
 4 copies of endowment agreements you believed to
 5 be held by AHERF, the parent, in your '96 work? 13:46:06
 6 A. I believe I said no because they
 7 were doing it -- because they were taking their
 8 own procedures to get the documents.
 9 Q. My question now is did you instruct
 10 Mr. Panucci or anybody else to do that? 13:46:22
 11 A. No, I instructed him to review the
 12 process of what management was undertaking.
 13 Q. Did you ever learn from Mr. Lyden
 14 or anybody else that AHERF or C&L had only
 15 partial copies or believed they had only 13:46:56
 16 partial copies of any of the five endowments
 17 that we've now defined as the Lockhart trusts?
 18 MR. RYAN: Could I get that read
 19 back, please?
 20 (Record read.) 13:47:31
 21 A. I don't recall. I know there were
 22 cases where they didn't have complete documents
 23 or information was not available. I just don't
 24 recall specifically related to those documents
 25 at AHERF. 13:47:48

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1 Q. Who did you learn what you just
 2 learned about some documents, perhaps, being
 3 missing from?
 4 A. I don't recall if it was Carolyn
 5 Cafaro or someone, that there were documents 13:48:09
 6 that were very old that they were trying to
 7 track down.
 8 Q. Well, they were old documents that
 9 might have some missing portions or they were
 10 just old documents? 13:48:24
 11 A. Old documents that they may just
 12 not even have because they never existed or --
 13 period, or -- and I don't know if that was
 14 parts, pieces. It was just that they didn't --
 15 it was quite an effort to gather materials 13:48:41
 16 throughout the system.
 17 Q. Miss Cafaro you understood to be
 18 involved with endowment work related to the
 19 eastern enterprises, is that right?
 20 A. Principally in 1996. But she 13:48:58
 21 clearly was identified as the person who had
 22 really spent a significant amount of time in
 23 understanding the pronouncements and was
 24 helping the others in the western region with
 25 evaluating what they needed to do. 13:49:10

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<p style="text-align: right;">Page 430</p> <p>1 unrestricted categories in fiscal year 1996?</p> <p>2 MR. RYAN: Objection.</p> <p>3 A. I'm sorry, can you repeat that?</p> <p>4 Q. Do you recall whether AHERF made a</p> <p>5 direct reclassification of certain of the gains 14:54:55</p> <p>6 on the trusts, the Lockhart trusts from</p> <p>7 restricted to unrestricted for fiscal year</p> <p>8 1996?</p> <p>9 MR. RYAN: Same objection.</p> <p>10 A. I'm not sure I know what you mean 14:55:09</p> <p>11 by direct reclassification.</p> <p>12 Q. Without income statement effect.</p> <p>13 A. I don't recall.</p> <p>14 Q. Is the amount reflected on the</p> <p>15 Lockhart trust summary, which is now Exhibit 14:55:29</p> <p>16 4427, the 13.4 million and change amount, was</p> <p>17 that made as a reduction in the temporary fund</p> <p>18 balance with no income statement impact?</p> <p>19 MR. RYAN: Objection.</p> <p>20 Q. Is that what's reflected there? 14:55:53</p> <p>21 A. I can't tell without all of the</p> <p>22 detailed records.</p> <p>23 Q. I'm going to ask you to look back</p> <p>24 at 4113.</p> <p>25 Are you there? 14:56:33</p>	<p style="text-align: right;">Page 432</p> <p>1 questions for you about it.</p> <p>2 This is called the trial balance</p> <p>3 final binder for the year-ended 6-30-96. Is</p> <p>4 that right?</p> <p>5 A. Yes. 14:58:51</p> <p>6 Q. It's for AHERF at the parent level?</p> <p>7 A. Yes.</p> <p>8 Q. I'm going to ask you to look at</p> <p>9 page number --</p> <p>10 A. I'm sorry, it's for AHERF. I don't 14:59:01</p> <p>11 know if what it contains is for the parent</p> <p>12 level.</p> <p>13 Q. Let me know if you see anything</p> <p>14 that suggests that it relates to anything other</p> <p>15 than the parent level as we go through these 14:59:12</p> <p>16 next questions or these next few pages.</p> <p>17 I would like you to look at page</p> <p>18 8511.</p> <p>19 A. Yes.</p> <p>20 Q. See the handwritten note, reclass, 14:59:43</p> <p>21 in the right-hand margin?</p> <p>22 A. Yes.</p> <p>23 Q. Do you see the set of -- or the two</p> <p>24 figures that are being subtracted beneath that</p> <p>25 that appear to state a difference of 13.4 14:59:57</p>
<p style="text-align: right;">Page 431</p> <p>1 A. Yes.</p> <p>2 Q. Let me make sure I get there.</p> <p>3 I'm going to ask you to flip to</p> <p>4 page 420, to the column headed prior period</p> <p>5 effect, endowment prior period effect. 14:56:55</p> <p>6 Are you there?</p> <p>7 A. Tell me which column, how many.</p> <p>8 Q. It's the third from the right. I</p> <p>9 realize they're hard to read in this font.</p> <p>10 Endowment prior period effect 14:57:10</p> <p>11 column, do you see it?</p> <p>12 A. Yes, I see the third column. I</p> <p>13 guess that's what that says.</p> <p>14 Q. The balance there is, I'll</p> <p>15 represent to you, 13.4 million dollars. Do you 14:57:22</p> <p>16 see that?</p> <p>17 A. I see that number. That's what it</p> <p>18 looks like.</p> <p>19 Q. Do you know why it is in that</p> <p>20 column as you sit here today? 14:57:32</p> <p>21 A. I don't recall.</p> <p>22 Q. I'm handing you what's been marked</p> <p>23 as Exhibit 4114, Miss Frazier. I'm going to</p> <p>24 ask you to look at a set of documents from the</p> <p>25 binder for a moment and I'll have a few 14:58:33</p>	<p style="text-align: right;">Page 433</p> <p>1 million and change?</p> <p>2 A. Yes.</p> <p>3 Q. Do you know whose handwriting</p> <p>4 that's in?</p> <p>5 A. No. 15:00:07</p> <p>6 Q. Does this refresh your recollection</p> <p>7 about any direct reclassification of a sum of</p> <p>8 approximately 13.4 million dollars?</p> <p>9 MR. RYAN: Objection.</p> <p>10 A. What period? 15:00:21</p> <p>11 Q. For fiscal year '96.</p> <p>12 A. No.</p> <p>13 Q. Did you learn about it later?</p> <p>14 MR. RYAN: Objection.</p> <p>15 A. I recall -- I recall a number here, 15:00:34</p> <p>16 but not because of what we've just seen here</p> <p>17 now.</p> <p>18 Q. What number are you telling me that</p> <p>19 you recall?</p> <p>20 A. Just 13.456, knowing that I've seen 15:00:43</p> <p>21 it on Exhibit 4427 today as we sit here.</p> <p>22 Q. That's fine.</p> <p>23 You recall seeing it in a couple</p> <p>24 places today?</p> <p>25 A. Yes. 15:00:53</p>

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<p style="text-align: right;">Page 434</p> <p>1 Q. Do you ever recall that the 1996 2 AHERF parent level financial statements at any 3 time or in a prior draft had a larger amount, 4 the amount of 66.2 million dollars, roughly, 5 classified as temporarily restricted in 15:01:15 6 connection with these Lockhart trusts? 7 MR. RYAN: Objection. 8 A. I don't recall AHERF parent level 9 financial statements. They didn't exist, at 10 least for our purposes. 15:01:33 11 Q. That the endowments -- where would 12 these endowments then have appeared on the 1996 13 financial statements, the sums in these 14 endowments? 15 MR. RYAN: In which financial 15:01:47 16 statements? 17 MR. JONES: The 1996 financial 18 statements. 19 MR. RYAN: She's drawing a 20 distinction between AHERF, the parent, versus 15:01:53 21 the consolidated AHERF. 22 MR. JONES: That's what I'm asking. 23 You're drawing a distinction for her, too, I 24 think, but I want her to tell me. 25 Q. Tell me on what set of financial 15:01:59</p>	<p style="text-align: right;">Page 436</p> <p>1 A. Yes. 2 Q. What does it refer to, the entry? 3 A. The temporarily restricted net 4 assets that were on AHERF that should be 5 recognized, that AHERF should have considered 15:03:43 6 recognizing into income because of the 7 operating losses at AHERF. 8 Q. Why was it not similarly necessary 9 to propose the same kind of adjustment for the 10 five Lockhart trusts as a part of your '96 15:04:10 11 audit work? 12 A. Because AHERF did not have 13 operating -- net operating losses that needed 14 to be considered in evaluating whether or not 15 that amount could be released from restriction. 15:04:21 16 Q. In 1996? 17 A. In 1996. 18 MR. JONES: Let's go ahead and 19 pause there for a change of tapes. 20 THE VIDEOGRAPHER: Off the record, 15:04:33 21 3:05. 22 (Recess had.) 23 THE VIDEOGRAPHER: Back on the 24 record at 3:24. 25 Q. Miss Frazier, do you recall any 15:24:12</p>
<p style="text-align: right;">Page 435</p> <p>1 statements these endowments appeared in 1996. 2 A. The consolidated AHERF financial 3 statements. 4 Q. Thank you. That's what I meant. 5 Handing you now, Miss Frazier, 15:02:36 6 Exhibit 1079, with the issue topic Summary of 7 Unadjusted Differences 6-30-97. 8 Do you see that? 9 A. Yes. 10 Q. Have you ever seen this document 15:02:46 11 before? 12 A. Yes. 13 Q. Let me direct your attention to 14 page 9743 to the entry, I know it's difficult 15 to read, about halfway down the page, in about 15:03:04 16 12 million dollars' amount, which reads, "To 17 recognize the remaining amount of temporarily 18 restricted net assets for the good of the 19 organization." 20 Do you see that? 15:03:20 21 A. Yes. 22 Q. It has AHERF on the left-hand 23 margin next to the entry, right? 24 A. Yes, it does. 25 Q. Do you know what that refers to? 15:03:27</p>	<p style="text-align: right;">Page 437</p> <p>1 discussions with Mr. Buettner during your 2 fiscal year 1996 audit work concerning AHERF's 3 classifications of the Lockhart trusts as we've 4 defined them? 5 A. Yes, as it relates to AHERF trusts. 15:24:37 6 So, again, I wasn't using Lockhart at the time 7 in 1996. 8 Q. When do you recall those 9 conversations taking place? 10 A. During year-end field work. 15:24:52 11 Q. Do you recall these conversations 12 to have related to irrevocable trusts held by 13 the AHERF parent or irrevocable trusts held by 14 the AHERF parent? 15 A. I don't recall if I used that term 15:25:09 16 or not. 17 Q. I don't mean to suggest that I want 18 you to restrict your effort to recall things 19 about what term you used. 20 My question is more do you recall 15:25:19 21 thinking that the trusts you were discussing 22 with Mr. Buettner were irrevocable? 23 A. I don't recall. I just recall the 24 discussion of trusts at AHERF. 25 Q. What do you recall about that 15:25:37</p>

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<p style="text-align: right;">Page 438</p> <p>1 conversation or those conversations? Was it 2 more than one? That's about six questions. 3 Let me ask you one question. Did 4 you have more than one conversation on this 5 topic with Mr. Buettner? 15:25:47 6 A. We're still in 1996? 7 Q. Yes. 8 A. I don't recall if it was more than 9 one. 10 Q. Was it more than one or two if it 15:25:58 11 was more than one? 12 A. I don't recall if it was more than 13 one or not. I just recall that I could have 14 said the same thing twice. I don't know. I 15 just -- 15:26:18 16 Q. I think I understand that. My 17 question is really getting at do you recall a 18 steady stream of conversations with 19 Mr. Buettner about AHERF held trusts or do you 20 recall a conversation or two? 15:26:29 21 A. I recall several discussions that 22 he and I had about AHERF trusts as a whole, so 23 there were -- which included all the eastern 24 and western regions. But I recall as it 25 relates to the AHERF parent only trusts at 15:26:45</p>	<p style="text-align: right;">Page 440</p> <p>1 conclusions would be inappropriate. 2 Q. Do you recall any reaction he had 3 to what you shared with him, anything he said? 4 A. I recall him feeling that the 5 process that they had undertaken seemed 15:28:13 6 reasonable and that to classify -- in 7 particular I recall classifying the temporarily 8 restricted and having a view that that was 9 conservative seemed appropriate. 10 Q. Do you recall anything more about 15:28:32 11 the conversation or two? 12 A. Not as I sit here today, no. 13 Q. Have you ever come to the belief 14 that AHERF's accounting for sums maintained in 15 the Lockhart trust accounts, as we've defined 15:28:53 16 them today, was wrong in either fiscal year 17 1996 or fiscal year '97? 18 MR. RYAN: You mean accounting in 19 those years, not her belief in those years? 20 MR. JONES: Yes. 15:29:04 21 MR. RYAN: It was sort of an 22 ambiguous question. 23 MR. JONES: I meant the accounting 24 in those years because I used the phrase has 25 she ever come to the belief. But let me try it 15:29:09</p>
<p style="text-align: right;">Page 439</p> <p>1 least one conversation. 2 Q. So it was more on the order of a 3 conversation or two with respect to AHERF 4 held -- AHERF parent held trusts than it would 5 have been a steady stream of conversations, am 15:26:59 6 I right? 7 A. Yes. 8 Q. What do you recall about that 9 conversation or two? 10 A. The similar conclusions that I 15:27:11 11 shared with you earlier that AHERF had made -- 12 AHERF management had made relative to these 13 trusts at AHERF, that they were drawing the 14 best conclusion that they could on the 15 information that they had and how to classify 15:27:25 16 those trusts in the financial statements. 17 Essentially sharing with him the conclusions 18 that AHERF management had reached relative to 19 the classification of the trusts. 20 Q. Did you express to him any concern 15:27:39 21 over the propriety of the classifications? 22 MR. RYAN: Objection to form. 23 A. I wasn't concerned. I expressed to 24 him their conclusions and that I did not have 25 any information that would suggest that their 15:27:57</p>	<p style="text-align: right;">Page 441</p> <p>1 again. 2 Q. Have you ever come to the belief 3 that the AHERF's accounting for the sums held 4 in the Lockhart trusts, as we've defined them 5 today, in 1996 or 1997 was wrong? 15:29:23 6 A. No. 7 Q. Did you ever become concerned that 8 that was the case or might be the case? 9 A. I'm not sure I felt concerned, but 10 I certainly during 1998 felt that we needed to 15:29:39 11 at least understand based on potentially new 12 information that it needed to be considered. 13 Q. What was the potentially new 14 information? 15 A. Well, certainly the actual letter 15:29:55 16 from Mellon Bank was new information but still 17 at that point did not know if it was 18 conclusive, that it needed -- or that it 19 required a change. 20 Q. Did you ever learn that anybody 15:30:10 21 else at C&L came to the belief that the 22 accounting for the Lockhart trusts and the sums 23 held in those trusts by AHERF in 1996 or 1997 24 was wrong? 25 A. No. 15:30:25</p>

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1 Q. Do you recall any discussion about
2 any change in the obligation that Coopers &
3 Lybrand might -- change in the obligations that
4 Coopers might have to disclose a misstatement
5 contained in the consolidating or supplementary 17:12:46
6 information regarding the individual Obligated
7 Groups in 1997 that would have been different
8 from their obligations to disclose such a
9 misstatement in 1996?

10 A. I'm not sure I understand from -- 17:13:05
11 what you're referring to as far as a change in
12 obligation. I'm not aware of any changes in
13 what supplementary schedules mean and what that
14 report states, if that's what you're referring
15 to. 17:13:25

16 Q. Well, let me ask it maybe this way.
17 In 1997, did you ever have any conversations
18 about whether -- with anyone on the engagement
19 team about whether if a material -- if a
20 misstatement had been detected by AHERF in the 17:13:42
21 consolidating information or supplementary
22 information relating to an individual Obligated
23 Group, whether -- that was material to that
24 individual Obligated Group's financial
25 information itself, whether that misstatement 17:14:00

Page 519

1 would have to be disclosed in the 1997 report?

2 MR. RYAN: Objection.

3 A. I recall discussions that we were
4 considering adjustments on the consolidated
5 financial statements taken as a whole and that 17:14:27
6 the mathematical accuracy of the information
7 reported in those consolidating schedules was
8 exactly what that represented.

9 I recall discussions of adjustments
10 that may have affected different entities 17:14:48
11 between those statements, but not that as it
12 related to our obligations.

13 Q. I'm handing you now what we marked
14 as Exhibit 4404 in an earlier deposition, which
15 is, I believe, after your review, something 17:15:09
16 you'll tell me is section 440 from the Business
17 Assurance Manual regarding reports on
18 consolidating information.

19 Is that what it appears to be to
20 you? 17:15:26

21 A. It's been a long time since I've
22 looked at it. It appears to be something that
23 may have represented the Business Assurance
24 Manual.

25 Q. Let me direct you to the second 17:15:43

Page 520

1 page. The paragraph that appears beneath
2 supplementary data qualified because of a
3 departure from GAAP. Do you see that?

4 Do you see that heading?

5 A. Yes. 17:16:01

6 Q. Go ahead and read that paragraph to
7 yourself, and then I'll hopefully have very few
8 questions on it and we'll conclude for the day.

9 A. Okay.

10 Q. The first sentence reads, "When we 17:16:37
11 report on consolidating financial statements as
12 supplementary data and we are aware that one or
13 more of the individual statements contain a
14 departure from Generally Accepted Accounting
15 Principles, GAAP, that is material to the 17:16:52
16 individual company but not to the consolidated
17 group, our responsibilities are not different
18 than from when we are aware of a material
19 departure from GAAP in any other financial
20 statements with which we are associated." 17:17:09

21 Did I read that right?

22 A. Yes. I think you had a "then" in
23 there, but -- right after different, but --

24 Q. Otherwise I read it right?

25 A. Yes. 17:17:19

Page 521

1 Q. Whenever -- it continues.
2 "Whenever a financial statement's" -- I'm
3 sorry, "Whenever financial statements depart
4 materially from GAAP and are not appropriately
5 revised by the client, we are required to issue 17:17:29
6 a qualified or an adverse opinion."

7 Did I read that right?

8 A. Yes.

9 Q. Do you recall any conversation of
10 this -- about this topic in connection with 17:17:44
11 your 1997 audit work?

12 A. Yes.

13 Q. What do you recall?

14 A. I recall consideration of the 50
15 million dollar transfer of reserves and that 17:17:59
16 since in effect it had been -- it was on the
17 balance sheet of the respective entities --
18 well, maybe not in the -- in a different
19 category within those financial statements, it
20 was in at least the respective financial 17:18:19
21 statements, and that such classification did
22 not have an affect or need to be disclosed in
23 the report that was included within the
24 supplementary schedules.

25 Q. What is the such classification? 17:18:34

66 (Pages 518 to 521)

<p style="text-align: right;">Page 522</p> <p>1 A. That -- I would have to look back 2 to the supplementary schedules to refresh my 3 memory as to where it actually was, but that 4 there was a credit balance on Graduate and 5 that -- there was an -- again, I don't want to 17:18:56 6 even speculate there. I have to look at the 7 detailed schedules, but I recall the conclusion 8 that when you walk through the accounting and 9 where those amounts were, that it was -- that 10 we were -- that it was -- we were comfortable 17:19:14 11 with drawing a conclusion that it did not 12 misstate those statements. 13 Q. Which statements? 14 A. The consolidating statements, or 15 the consolidated financial statements taken as 17:19:25 16 a whole. 17 Q. Both sets? 18 A. Correct. 19 Q. And the 50 million dollar transfer 20 that you referred to is the 50 million dollars 17:19:31 21 of reserves established in connection with the 22 acquisition of the Graduate hospitals that 23 later ended up enhancing the bad debt reserve 24 at the DVOG, Delaware Valley Obligated Group 25 hospitals, correct? 17:19:48</p>	<p style="text-align: right;">Page 524</p> <p>1 material to AHERF taken as a whole, is that 2 something Coopers should have disclosed in its 3 audit opinion? 4 MR. RYAN: Objection. You're 5 asking a hypothetical question? 17:21:27 6 MR. JONES: Yes. 7 A. So you're saying if we had some 8 reason to believe that? 9 Q. Yes. 10 A. When? 17:21:34 11 Q. In your 1997 audit work. 12 A. It's too hard to answer that 13 without knowing what the facts and 14 circumstances are what it related to, when it 15 really -- 17:21:50 16 Certainly if there was something 17 that we needed to consider as part of those 18 supplemental schedules that were included or 19 someone lied to us and didn't tell us 20 information, obviously we would have needed to 17:22:03 21 evaluate that, but -- 22 Q. I ask you to assume for me that you 23 had concluded from all the facts and 24 circumstances presented for audit that the 25 Delaware Valley Obligated Group's statement of 17:22:20</p>
<p style="text-align: right;">Page 523</p> <p>1 A. I wouldn't use the word enhancing. 2 Q. Increasing? 3 A. Included as part of the total. 4 Q. Making the reserve larger? 5 A. Mathematically, through 17:20:03 6 bookkeeping, yes. 7 Q. That's what I meant. 8 Who did you have a conversation 9 with? 10 A. Mr. Buettner. 17:20:12 11 Q. Anybody else? 12 A. I don't recall. 13 Q. Do you recall when? 14 A. During the late part of field work 15 for 1997 audit, year-end. 17:20:27 16 Q. Let me ask you this. We're going 17 to come back to this conversation and the 50 18 million dollar issue tomorrow, I promise. 19 Let me ask you this. If Coopers & 20 Lybrand had become aware in 1997 that DVOG's, 17:20:51 21 the Delaware Valley Obligated Group's statement 22 of operations column in the consolidating 23 information presented a net income figure that 24 was overstated by an amount material to the 25 Delaware Valley Obligated Group, but not 17:21:12</p>	<p style="text-align: right;">Page 525</p> <p>1 operations column in the consolidating 2 statements in 1997 was materially misstated, 3 materially overstated in an amount to be 4 redundant, material to the Delaware Valley 5 Obligated Group but not material to AHERF as a 17:22:38 6 whole, I want you to assume that, after all of 7 your review of the facts and circumstances, was 8 it Cooper's obligations, therefore, in 1997 if 9 that were the case to disclose that 10 overstatement in its audit opinion or to 17:22:54 11 qualify its opinion or render an adverse 12 opinion? 13 MR. RYAN: Objection. Sounds like 14 you're asking her for an expert opinion. 15 MR. JONES: I'm asking her for her 17:23:08 16 opinion as a C&L auditor. We just read the 17 Business Assurance Manual. 18 A. Recognizing that I've not been in a 19 situation of an engagement partner ever in my 20 career, I'm not sure that I am qualified to 17:23:21 21 make that type of a conclusion. But -- 22 furthermore, it's based on, I need more facts 23 and circumstances to understand qualitatively 24 what that relates to. 25 Q. What do you think you need to 17:23:40</p>

67 (Pages 522 to 525)

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
& RESEARCH FOUNDATION,
Plaintiff,

vs.

PRICEWATERHOUSECOOPERS,
LLP,

Defendant.

Civil Action
No. 00-684

Continued Videotaped Deposition of
AMY FRAZIER, called for examination under the
Applicable Rules of Federal Civil Procedure,
taken before me, Michele E. Eddy, a Registered
Professional Reporter and Notary Public in and
for the State of Ohio, pursuant to notice and
stipulations of counsel, at the offices of
Jones Day, 222 East 41st Street, Suite 400, New
York, New York, on Thursday, the 10th day of
June, 2004, at 9:00 a.m.

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VOLUME III

- - - - -

Amy Frazier

Volume 3

<p style="text-align: right;">Page 595</p> <p>1 System Restructuring on that page in the upper 2 left-hand corner in very small print? 3 A. Yes. 4 Q. Beneath it the Graduate header for 5 the Graduate hospitals, perhaps, or the 10:28:43 6 Graduate Hospital, do you see that? 7 A. Yes. 8 Q. Do you see the row about halfway 9 down the first half of the first column that 10 reads, "Record bad debt allowance"? 10:28:56 11 A. Yes. 12 Q. Do you see the parenthetical entry 13 of 20 million dollars under a certain account 14 number there, one, two, three, four account 15 numbers over as a column? 10:29:11 16 A. Yes. 17 Q. Do you know what that account 18 number was for? 19 A. I don't recall, but I do just want 20 to make sure -- I'm not sure if these were -- 10:29:19 21 they may be consecutive. I just don't know 22 that they correlate with the meeting. I just 23 wanted to make sure we were clear on that. 24 Q. If I told you that account number 25 related to due to slash from AHERF, does it 10:29:33</p>	<p style="text-align: right;">Page 597</p> <p>1 like this with Mr. Cancelmi during your July 16 2 or thereabouts 1997 meeting? 3 A. No, I actually recall another 4 schedule that I have from him. 5 Q. You don't recall going over this 10:30:41 6 one with him during that meeting? 7 A. No, I don't. 8 Q. Upper right-hand corner of the 9 schedule which ends in the Bates digits 699, 10 does that say Dan, if you turn the page 10:30:52 11 sideways and look at it so that the information 12 is presented left to right? Does the upper 13 right-hand corner down by the Bates digits say 14 Dan? 15 A. It looks like it could. 10:31:04 16 Q. Is that your handwriting? 17 A. No. 18 Q. So just, I guess, to summarize, and 19 Mr. Ryan will tell me if I've summarized it 20 inaccurately, is it your testimony, Miss 10:31:27 21 Frazier that you did not learn of the 50 22 million dollar Graduate reserve transfers 23 during a conversation with Mr. Cancelmi in July 24 of 1997 or about July 16 of 1997? 25 A. Absolutely not. In fact, there was 10:31:39</p>
<p style="text-align: right;">Page 596</p> <p>1 refresh your recollection at all about what 2 this entry meant? 3 MR. RYAN: You mean what she 4 thought it meant -- 5 MR. JONES: Yes. 10:29:44 6 MR. RYAN: -- or what she saw on 7 the schedule or what she thinks now? 8 MR. JONES: What she thought it 9 meant when she saw it. 10 A. I don't recall seeing this 10:29:50 11 schedule. 12 Q. I'm going to ask you the same 13 question for the record bad debt allowance and 14 the parenthetical entry of 5 million under the 15 same account number on the next page, do you 10:30:04 16 see that, at Mt. Sinai Hospital? 17 A. Yes. 18 Q. Do you recall what that meant when 19 you got the schedule? 20 A. I don't recall the schedule or when 10:30:11 21 I got the schedule. 22 Q. If you got the schedule in July of 23 '97 when you made the notes for Mr. Cancelmi or 24 otherwise -- let me ask it this way. 25 Do you recall reviewing a schedule 10:30:30</p>	<p style="text-align: right;">Page 598</p> <p>1 50 million dollar reserves for Graduate that I 2 was still waiting for support on. That was 3 part of my conversation with him. 4 Q. Let me ask you to look at another 5 document with me. 10:31:51 6 - - - - - 7 (Thereupon, Deposition Exhibit 4436 8 was marked for purposes of 9 identification.) 10 - - - - - 10:32:36 11 Q. We're handing you now, Miss 12 Frazier, what we've marked as Exhibit 4436, 13 which is a set of handwritten notes, I believe, 14 that were authored by Mr. Kirstein. I only 15 believe that from recollection of discussing 10:32:47 16 some of these notes with him a couple weeks 17 ago. 18 Do you recognize the handwriting as 19 his? 20 A. Yes. 10:32:54 21 Q. I'm going to ask you to take a look 22 at the page of Exhibit 4436 that starts with 23 the Bates digits, the ending Bates digits 44. 24 No, I'm not. Actually the next 25 page, 45. 10:33:28</p>

16 (Pages 595 to 598)

Amy Frazier

Volume 3

<p style="text-align: right;">Page 599</p> <p>1 Do you see at the top of the page, 2 he has apparently written the words Dan C 3 period, 4-18, and then across the row where 4 that text appears are the names Buettner slash 5 Frazier? 10:33:46 6 A. Yes. 7 Q. Do you recall participating in a 8 meeting or a conference call with Mr. Cancelmi, 9 Mr. Kirstein and Mr. Buettner on or about April 10 18, 1997? 10:34:01 11 A. I recall several conference call 12 type meetings in April. I just don't know the 13 precise dates. 14 Q. Would you take a moment to look at 15 these two pages of handwritten notes, 45 and 10:34:18 16 46, and then I'll just have a couple questions 17 for you. 18 A. Yes. 19 Q. Have you ever seen these notes 20 before? 10:34:56 21 A. Yes. 22 Q. When? 23 A. In connection with the deposition 24 preparation. 25 Q. Did you see them in connection with 10:35:03</p>	<p style="text-align: right;">Page 601</p> <p>1 dollars of reserves for Graduate. I don't 2 recall exactly when we, as I said before, the 3 discussion on the 80 million dollars of 4 charge-offs. 5 Q. You do, however, from your prior 10:36:26 6 testimony today, recall that there had been 80 7 million dollars of charge-offs at -- A/R 8 charge-offs at the Delaware Valley Obligated 9 Group hospitals recently? 10 MR. RYAN: Objection. 10:36:39 11 A. That there would be 80 million 12 dollars charge-offs. I don't -- I guess my 13 expectation was those would have been in the 14 DVOG hospitals, but -- 15 Q. Okay. 10:36:48 16 A. -- I didn't know the detail of 17 where. 18 Q. Do you recall discussing with 19 Mr. Buettner, Mr. Cancelmi and Mr. Kirstein in 20 April of 1997 any topic that included 10:36:58 21 connecting the 50 million dollars of reserves 22 at the Graduate with 80 million dollars of 23 charge-offs at the Delaware Valley Obligated 24 Group hospitals? 25 MR. RYAN: Objection. 10:37:11</p>
<p style="text-align: right;">Page 600</p> <p>1 preparing for this deposition? 2 A. Not -- last week. With that said, 3 I've obviously been doing them for years now, 4 so -- 5 Q. Not in this case, though, right? 10:35:26 6 A. No. 7 Q. It may seem like years, but we've 8 only been together for two days and a part of 9 the third day, is that right? 10 A. That's correct. 10:35:28 11 Q. The other testimony was in the SEC 12 proceeding? 13 A. Yes. 14 Q. The second portion of the page 15 toward the bottom, if you look there, you will 10:35:35 16 see the phrase 50 million reserves -- 50 17 million dollars reserves at Graduate, comma, 18 will have 80 million C slash O in DV by 19 6-30-97. Do you see that? 20 A. Yes. 10:35:55 21 Q. Do you recall discussing this topic 22 with Mr. Cancelmi, Mr. Kirstein and 23 Mr. Buettner on or about April 18, 1997? 24 MR. RYAN: Objection. 25 A. I recall the topic of 50 million 10:36:12</p>	<p style="text-align: right;">Page 602</p> <p>1 A. Absolutely not. 2 Q. Look to the next note on the page, 3 it reads, "Placing reserves on Graduate 4 entities to be used for DV" -- "to be used for 5 DV A slash R at year-end." 10:37:51 6 Do you see that? 7 A. Yes. 8 Q. Do you recall having any 9 conversation with any of the folks I just 10 mentioned about placing the reserves on the 10:38:01 11 Graduate entities to be used for the Delaware 12 Valley Obligated Group A/R at year-end? 13 MR. RYAN: Objection. 14 A. I was never involved in such a 15 conversation. 10:38:10 16 Q. At the bottom of the page, "Mr. 17 Kirstein's apparently written, defers A slash R 18 problem to be deferred." He may have been 19 redundant and used deferred or some form of the 20 word twice. 10:38:30 21 Do you recall ever having a 22 discussion with Mr. Cancelmi and Mr. Buettner 23 or Mr. Kirstein in April of 1997 about 24 deferring an A/R problem at the Delaware Valley 25 Obligated Group hospitals or any of them? 10:38:41</p>

17 (Pages 599 to 602)

Amy Frazier

Volume 3

Page 603

1 A. No.

2 Q. So let me ask you to flip back to
3 page 44, the page I misguided you to at the
4 beginning of this little conversation.5 On that page, Mr. Kirstein has 10:39:16
6 apparently written at the top of the page "4-21
7 conference call." Do you see that?

8 A. Yes.

9 Q. Beneath it he's written the words,
10 "50 million additional reserves." Do you see 10:39:30
11 that? "50 million additional reserves" or the
12 abbreviation for additional.

13 A. Yes.

14 Q. Off to the left-hand margin he's
15 also written, I think, "Write-down, 50 million 10:39:38
16 dollars, put one-half against A/R."

17 Do you see that?

18 A. Yes.

19 Q. Do you recall discussing using 50
20 million dollars of Graduate reserves or 10:39:51
21 reserves created in connection with the
22 acquisition of the Graduate hospitals for the
23 Delaware Valley Obligated Group bad debt
24 reserve in a conference call with Mr. Kirstein
25 in late April or about April 21, 1997? 10:40:05

Page 604

1 MR. RYAN: Objection.

2 A. There was never a call that I was
3 involved in that discussed that.4 Q. Do you recall discussing on a
5 conference call with anyone, Mr. Kirstein or 10:40:33
6 anybody else on the engagement team, about
7 whether because the -- let's try that again.8 Look to the lower left-hand corner
9 of the page where Mr. Kirstein has apparently
10 written the words "view consolidated basis as 10:40:52
11 acquisition." Do you see that?

12 A. Yes.

13 Q. Do you recall being involved in a
14 conference call or a meeting or a discussion
15 with Mr. Kirstein at which you discussed the 10:41:03
16 fact that if AHERF as the enterprise was viewed
17 on a consolidated basis after the Graduate
18 acquisition, transfer of the 50 million dollar
19 reserves would not need to be disclosed on the
20 financial statements? 10:41:21

21 MR. RYAN: Objection.

22 A. Absolutely not.

23 Q. And I mean a meeting or a
24 conference that occurred in April of '97.

25 A. Never. 10:41:28

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1 Q. Have you seen these notes before or
2 any of them that we've just reviewed other than
3 in preparation sessions for deposition?

4 A. No.

5 -----
6 (Thereupon, Deposition Exhibit 4437
7 was marked for purposes of
8 identification.)
9 -----10 Q. Miss Frazier, I'm going to hand you 10:42:11
11 now Exhibit 4437. It's been marked apparently
12 in another proceeding, and I've got to believe
13 it was the SEC proceeding as Plaintiff's
14 Exhibit 11. It's a set of color notes that I
15 believe you'll tell me, two pages' worth, that 10:42:30
16 I believe you'll tell me are written in your
17 hand. Is that right?

18 A. Yes.

19 Q. They're dated April 22nd, 1997. Is
20 that right? 10:42:41

21 A. That's the date at the top.

22 Q. Do you believe that you took these
23 notes on April 22nd, 1997 or within a few days
24 of April 22nd, 1997?

25 MR. RYAN: You mean the red part or 10:42:51

Page 606

1 the whole thing?

2 MR. JONES: Let's start with the
3 red part.4 Q. There are certain notes in red,
5 correct? 10:42:59

6 A. Yes.

7 Q. And certain notes in black,
8 correct?

9 A. Yes.

10 Q. Do you believe that you took any 10:43:09
11 portion of these notes on April 22nd, 1997 or
12 within a few days thereof?13 A. I believe the red notes would have
14 been in April of 1997, yes.15 Q. Do you believe it would have been 10:43:15
16 within a few days of April 22nd that you took
17 these notes?

18 A. Likely, yes.

19 Q. You, I think, want to tell me that
20 the notes in black or Mr. Ryan wants me to 10:43:22
21 understand that the notes in black were taken
22 at some other time in your view. Is that
23 right?

24 A. Yes.

25 Q. When do you believe that those 10:43:30

18 (Pages 603 to 606)

<p style="text-align: right;">Page 607</p> <p>1 notes in black were penned by you?</p> <p>2 A. Sometime during year-end field</p> <p>3 work.</p> <p>4 Q. For the 1997 audit?</p> <p>5 A. Yes. 10:43:41</p> <p>6 Q. Do you know when?</p> <p>7 A. No. It could have included even</p> <p>8 the subsequent event period. I'm just not</p> <p>9 sure.</p> <p>10 Q. Let me ask you to skip to the 10:44:08</p> <p>11 middle of the page in red ink with an arrow</p> <p>12 next to it. You have written the phrase 50</p> <p>13 million reserve location, is that right?</p> <p>14 A. Yes.</p> <p>15 Q. 50 million reserve location, is 10:44:24</p> <p>16 that right?</p> <p>17 A. Yes.</p> <p>18 Q. Do you know what these -- why you</p> <p>19 wrote that?</p> <p>20 A. Yes. 10:44:32</p> <p>21 Q. Why?</p> <p>22 A. Because I was on a conference call</p> <p>23 where Dan Cancelmi communicated that they</p> <p>24 wanted to record 50 million dollars of reserves</p> <p>25 at Graduate for Graduate but they weren't sure 10:44:45</p>	<p style="text-align: right;">Page 609</p> <p>1 it was part of intercompany at year-end.</p> <p>2 Q. What do you mean by intercompany?</p> <p>3 A. That the amount was in an</p> <p>4 intercompany balance. It was just a</p> <p>5 short-term -- shortened word for me to refer 10:45:49</p> <p>6 back to.</p> <p>7 Q. The amount was going somewhere</p> <p>8 else, though, if it was in an intercompany</p> <p>9 account, is that correct?</p> <p>10 A. Yes. I mean, we came to know that 10:45:58</p> <p>11 as part of year-end, yes.</p> <p>12 Q. Where did it end up again?</p> <p>13 A. At the DVOG hospitals.</p> <p>14 Q. To boost or enhance or increase the</p> <p>15 bad debt reserve? 10:46:08</p> <p>16 A. It was a bookkeeping entry that was</p> <p>17 included in their bad debt reserve numbers at</p> <p>18 DVOG.</p> <p>19 Q. Well, what I mean to say is, and I</p> <p>20 think what you perhaps understood is that the 10:46:21</p> <p>21 bad debt reserve got larger by dollar volume --</p> <p>22 dollar amount, is that right?</p> <p>23 A. Literally, yes, it was a larger</p> <p>24 dollar number with it in there.</p> <p>25 Q. Does seeing this document now, Miss 10:46:47</p>
<p style="text-align: right;">Page 608</p> <p>1 where on the balance sheet they wanted to</p> <p>2 record them.</p> <p>3 Q. He used the words at Graduate for</p> <p>4 Graduate?</p> <p>5 A. Yes. 10:44:54</p> <p>6 Q. You're certain he used those very</p> <p>7 words?</p> <p>8 A. Yes, because he also provided</p> <p>9 examples of what they would use it for at</p> <p>10 Graduate. 10:45:03</p> <p>11 Q. You've written next to 50 million</p> <p>12 dollar reserve location the word intercompany</p> <p>13 in black pen. Is that right?</p> <p>14 A. Yes, with a slash.</p> <p>15 Q. Why did you write that, if you 10:45:14</p> <p>16 recall today?</p> <p>17 Do you recall today?</p> <p>18 A. Yes.</p> <p>19 Q. Why did you write that?</p> <p>20 A. I recall at year-end, sometime 10:45:19</p> <p>21 during year-end field work going back through</p> <p>22 my notes to understand where the Graduate --</p> <p>23 anything that needed follow-up, actually going</p> <p>24 back and evaluating how it had been accounted</p> <p>25 for, where, and then in that case I knew that 10:45:34</p>	<p style="text-align: right;">Page 610</p> <p>1 Frazier, give you any reason to believe that</p> <p>2 you knew about the 50 million dollar reserve</p> <p>3 transfers of which we've been speaking in April</p> <p>4 of '97?</p> <p>5 A. Absolutely not. I knew about it in 10:46:58</p> <p>6 August or year-end field work of 1997.</p> <p>7 Q. Let's skip to the next page. It</p> <p>8 says materiality, 15 million dollars, \$500,000</p> <p>9 SUD. Did I read that right?</p> <p>10 MR. RYAN: I'm not sure it was 15. 10:47:16</p> <p>11 MR. JONES: I said 15.</p> <p>12 MR. RYAN: I'm not sure that that's</p> <p>13 15.</p> <p>14 A. I believe that's 1.5. There's a</p> <p>15 faint dot there that maybe on the original is 10:47:23</p> <p>16 more clear.</p> <p>17 Q. I apologize if I've misread it, but</p> <p>18 I really can see no dot. So if that's your</p> <p>19 best recollection -- you've seen the document a</p> <p>20 number of times before, is that right? 10:47:34</p> <p>21 A. Yes. It's 1.5.</p> <p>22 Q. So the note reads, and it's in red,</p> <p>23 materiality, 1.5 million dollars, \$500,000 SUD,</p> <p>24 is that right?</p> <p>25 A. Everything is in red. There wasn't 10:47:50</p>

19 (Pages 607 to 610)

Page 611

1 anything unique about it being red.
 2 Q. I was just trying to time it so
 3 that we knew when you took it.
 4 A. Yes.
 5 Q. Do you know what that means today? 10:47:57
 6 A. I was referring to some materiality
 7 guidelines that we were contemplating as part
 8 of planning for the audit.
 9 Q. What did the 1.5 million dollars
 10 refer to? 10:48:12
 11 A. I would have to look back to our
 12 actual planning information. I just don't
 13 recall as I sit here today.
 14 Q. Do you know what the 500,000 K SUD
 15 referred to? 10:48:27
 16 A. Based on that, it's an -- I don't
 17 recall writing it, but, based on that, it
 18 appears at least as an initial recommendation
 19 of what we would include as possible
 20 adjustments on the SUD. 10:48:37
 21 Q. But the -- you can't recall what
 22 the 1.5 million dollars reserves to?
 23 Is that overall materiality?
 24 MR. RYAN: Objection.
 25 A. I can't recall. I need to go back 10:48:46

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1 into the planning work papers.
 2 Q. You can't recall?
 3 A. I can't, without looking at that.
 4 Q. It's been a number of years.
 5 A. Yes. 10:48:53
 6 Q. But you recall with clarity that
 7 the 50 million dollar reserve location note of
 8 a number of years ago did not refer to the
 9 transfer of the reserves from the Graduate
 10 hospitals to the Delaware Valley Obligated 10:49:19
 11 Group hospitals, am I right?
 12 A. Absolutely, because that was a part
 13 of a conference call. This, we wouldn't have
 14 been talking about materiality with that call.
 15 Q. You think this note is unrelated, 10:49:22
 16 the materiality note?
 17 A. It could have been or it's just a
 18 follow-up discussion even after we got off the
 19 phone, but I remember the call.
 20 Q. You can recall Mr. Cancelmi's words 10:49:33
 21 precisely so that you can quote them, am I
 22 right, today?
 23 MR. RYAN: Objection.
 24 Q. That the reserves were for Graduate
 25 at Graduate in those words? 10:49:43

Page 613

1 MR. RYAN: Objection.
 2 A. In those words. I don't know if he
 3 had ands and the's in between, but he said
 4 they're for Graduate at Graduate for the types
 5 of things that they need at Graduate. 10:49:52
 6 Q. I just want to make sure you recall
 7 that today.
 8 A. Absolutely.
 9 Q. Miss Frazier, I'm handing you what
 10 we've marked as 4258. It's a working paper 10:50:34
 11 named Hahnemann Trial Balance Review. Do you
 12 see that?
 13 A. Yes.
 14 Q. This is a working paper, I believe,
 15 that has been printed out in hard copy from a 10:50:46
 16 version of the CLASS database that was not the
 17 final version of the CLASS database for fiscal
 18 year '97.
 19 If you look about one, two, three,
 20 four pages into the document, you'll see a 10:51:09
 21 print of the screen that shows you as the
 22 author. Is that right?
 23 A. That's what it states, yes.
 24 Q. Do you recall authoring this
 25 document? 10:51:27

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1 A. I don't recall the document
 2 specifically, no.
 3 Q. Do you have any doubt that you did?
 4 A. No, not based on this. I'm not
 5 sure -- I mean, I'm not sure about all of the 10:51:37
 6 individual line items within it, but --
 7 Q. If you skip to the next page, the
 8 print of that page indicates that you created
 9 the document. Is that right?
 10 A. Yes. 10:51:51
 11 Q. Do you have any doubt that you did?
 12 A. No.
 13 Q. If you skip to the next page, that
 14 screen print indicates that you created the
 15 document on May 13, 1997 about 2:00 in the 10:52:02
 16 afternoon. Is that right?
 17 A. I'm sorry, I don't see my name.
 18 Q. Well, that the document itself was
 19 created. I was carrying over the presumption
 20 that you created it from the page prior. 10:52:28
 21 A. Oh, I'm sorry. That's what it
 22 states, yes.
 23 Q. Can you look at the rest of the
 24 screen prints and find for me -- I believe the
 25 document indicates that it was last modified on 10:52:37

20 (Pages 611 to 614)

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1 May 22nd, 1997. Do you see that?
 2 A. I see date modified, 5-22-97. I'm
 3 not sure if that's last modified.
 4 Q. Does that list all of the dates of
 5 the modification there? 10:53:06
 6 A. I don't know. I'm not just that
 7 familiar with that level of detail of CLASS to
 8 know that.
 9 Q. Let me direct you back now to the
 10 first page of the document. You see about a 10:53:20
 11 third of the way down on the face page of the
 12 document that there is a line that reads, "How
 13 is the first 25 of the 50 million distributed
 14 to the entities, or did this occur in April."
 15 Do you see that? 10:53:39
 16 A. Yes.
 17 Q. Do you believe that you typed that
 18 line or two lines?
 19 A. I don't have any reason to doubt
 20 that I didn't. 10:53:47
 21 Q. As you sit here today, do you know
 22 what that means?
 23 A. Generally speaking, yes.
 24 Q. What do you believe that it means?
 25 Let me ask this. Do you have any 10:54:00

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1 recall from 6-30-97's audit work about what
 2 this means?
 3 A. Yes.
 4 Q. What is your recall of what this
 5 means? 10:54:10
 6 A. That the DVOG hospitals were going
 7 to be implementing their new bad debt
 8 methodology and, once they did that, they
 9 expected that they would need to record
 10 additional bad debt reserves and they were 10:54:26
 11 going to take it over two months of about 25
 12 and 25 million each.
 13 Q. Where were they going to get those
 14 reserve amounts, do you have any recollection
 15 of that or knowing that at the time you typed 10:54:37
 16 this document?
 17 MR. RYAN: Objection.
 18 A. I don't recall as far as typing the
 19 document, but I recall generally in April
 20 knowing that they were going to record it as 10:54:48
 21 just normal bad debt reserves that you would do
 22 on any type of bad debt reserve transaction.
 23 Q. Who did you learn that from?
 24 A. Dan Cancelmi.
 25 Q. When you had those conversations -- 10:55:02

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1 was this in a conversation?
 2 A. Yes.
 3 Q. When you had those conversations,
 4 did Mr. Cancelmi tell you anything about how he
 5 anticipated that reserve increase was to be 10:55:19
 6 recorded in specific?
 7 MR. RYAN: Objection.
 8 A. I just recall it being we're going
 9 to record our bad debt reserve like we do, we
 10 adopted the methodology, it's just normal 10:55:30
 11 course of business that they've done in the
 12 past.
 13 Q. When you say normal course of
 14 business, how was it recorded at AHERF
 15 hospitals? 10:55:39
 16 A. In the past?
 17 MR. RYAN: You mean generally?
 18 Q. Yes, in your experience as of the
 19 audit of 1997.
 20 A. As bad debt expense. 10:55:46
 21 Q. So you increase bad debt expense on
 22 the statement of operations and boost the
 23 reserve by the same amount?
 24 A. That would be the offsetting entry,
 25 yes.

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1 Q. You had no knowledge, as of the
 2 date you authored Exhibit 4258, of a plan to or
 3 the implementation of a plan to move 50 million
 4 dollars of reserves established in connection
 5 with the Graduate Hospital acquisition to the 10:56:15
 6 Delaware Valley Obligated Group bad debt
 7 reserves, is that right?
 8 A. Absolutely not.
 9 Q. Am I right?
 10 A. I had no knowledge of that. 10:56:33
 11 Q. Why use the word distributed then
 12 if you -- if they were going to do this in the
 13 normal course, what does the word distributed
 14 mean?
 15 A. I just didn't know how, on which 10:56:36
 16 books it related to. So I knew it broadly as
 17 there was going to be 50 million on all the
 18 DVOG entities. I just didn't know which ones.
 19 Q. I'm handing you now, Miss Frazier,
 20 Exhibit 4297. I'll just have a few questions 10:57:14
 21 for you. It's a C&L work paper dated June 9,
 22 1997 and apparently created and last modified
 23 by Miss Heinlein. Is that right?
 24 A. Yes, according to what it says.
 25 Q. It's an issue topic document, is 10:57:37

21 (Pages 615 to 618)

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<p style="text-align: right;">Page 647</p> <p>1 weren't disclosed.</p> <p>2 Q. I want you to assume they were not</p> <p>3 until at least 1998.</p> <p>4 MR. RYAN: You're asking her to</p> <p>5 testify as to what she remembers actually 11:50:03</p> <p>6 feeling something about a fact you're asking</p> <p>7 her to assume?</p> <p>8 MR. JONES: No, that's not what I'm</p> <p>9 asking her at all.</p> <p>10 MR. RYAN: I'm confused. 11:50:09</p> <p>11 MR. JONES: I'm sorry you're</p> <p>12 confused. My question was, does she recall</p> <p>13 having a conversation with anyone, a personal</p> <p>14 friend, anyone, about discomfort over, personal</p> <p>15 discomfort over not disclosing the Graduate 11:50:19</p> <p>16 reserve transfers to the AHERF board.</p> <p>17 MR. RYAN: Objection.</p> <p>18 A. I guess two points. I don't know</p> <p>19 that they weren't disclosed.</p> <p>20 Q. I've asked you to assume that they 11:50:30</p> <p>21 were not.</p> <p>22 A. And, secondly, I don't talk about</p> <p>23 client matters to friends.</p> <p>24 Q. So you don't recall such a</p> <p>25 conversation? 11:50:41</p>	<p style="text-align: right;">Page 649</p> <p>1 was marked for purposes of</p> <p>2 identification.)</p> <p>3 - - - - -</p> <p>4 Q. We've just marked, Miss Frazier,</p> <p>5 Exhibit 4439. I'm going to ask you to take a 11:52:42</p> <p>6 few moments to take a look at the exhibit and</p> <p>7 ask -- then I'll ask you if you've ever seen it</p> <p>8 before.</p> <p>9 A. I don't recall in this sequential</p> <p>10 order. I recall some of them in a subsequent 11:53:23</p> <p>11 event binder.</p> <p>12 Q. Which pages do you recall appearing</p> <p>13 in a subsequent event binder?</p> <p>14 A. Just generally the format and</p> <p>15 putting the subsequent event binder together 11:53:31</p> <p>16 and that there was an index in the front of the</p> <p>17 sections.</p> <p>18 Q. So some of these documents may have</p> <p>19 appeared there, it is your view?</p> <p>20 A. Yes. 11:53:45</p> <p>21 Q. I'm going to ask you to look now at</p> <p>22 the -- the subsequent events binder to which</p> <p>23 you refer was for the '97 audit?</p> <p>24 A. Yes.</p> <p>25 Q. I'm going to ask you to look now at 11:53:57</p>
<p style="text-align: right;">Page 648</p> <p>1 A. I never had a conversation with</p> <p>2 friends or spouse or other family members.</p> <p>3 Q. That's fine.</p> <p>4 Do you recall discussing with</p> <p>5 anyone discomfort over the fact that the 11:50:49</p> <p>6 Graduate reserve transfers were not placed on</p> <p>7 C&L's SUD for fiscal year '97?</p> <p>8 A. I'm not sure I know what you mean</p> <p>9 by discomfort. I never had discomfort because</p> <p>10 I think I've testified that Mr. Buettner and I 11:51:02</p> <p>11 talked about whether or not it was necessary to</p> <p>12 include them.</p> <p>13 Q. I mean other than Mr. Buettner.</p> <p>14 MR. RYAN: Objection.</p> <p>15 A. I also said I don't recall if I had 11:51:22</p> <p>16 other discussions regarding the SUD on that</p> <p>17 particular item.</p> <p>18 Q. Do you recall ever seeing a draft</p> <p>19 version of the SUD in which the 50 million</p> <p>20 dollar reserve transfers were mentioned -- on 11:52:00</p> <p>21 which the 50 million dollar reserve transfers</p> <p>22 were mentioned?</p> <p>23 A. I don't recall there being one.</p> <p>24 - - - - -</p> <p>25 (Thereupon, Deposition Exhibit 4439</p>	<p style="text-align: right;">Page 650</p> <p>1 the first page. Do you see the language there</p> <p>2 underneath the heading Supplemental Schedules,</p> <p>3 Critical Matter?</p> <p>4 A. Yes.</p> <p>5 Q. It reads, "Included in the opinion 11:54:07</p> <p>6 is the addition of two supplemental paragraphs</p> <p>7 discussing the lack of information provided in</p> <p>8 the supplemental schedules of the report."</p> <p>9 Do you know what that refers to</p> <p>10 today? 11:54:22</p> <p>11 A. No, I don't.</p> <p>12 - - - - -</p> <p>13 (Thereupon, Deposition Exhibit 4440</p> <p>14 was marked for purposes of</p> <p>15 identification.)</p> <p>16 - - - - -</p> <p>17 Q. I'm handing you now, Miss Frazier,</p> <p>18 what we've marked as Exhibit 4440, which is a</p> <p>19 memo written on Coopers & Lybrand's letterhead</p> <p>20 dated November 12, 1996 from you to Steve Elek, 11:55:20</p> <p>21 E L E K. It appears that the subject of this</p> <p>22 memo is the highlights of Deloitte & Touche's</p> <p>23 Graduate work paper review.</p> <p>24 Have I read the top portion of the</p> <p>25 document accurately? 11:55:36</p>

29 (Pages 647 to 650)

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<p style="text-align: right;">Page 651</p> <p>1 A. Yes.</p> <p>2 Q. Who is Steve Elek?</p> <p>3 A. He was a partner in our, I don't</p> <p>4 know what group it was called at the time, but</p> <p>5 he would work on due diligence engagements for 11:55:43</p> <p>6 clients who had been acquiring other companies.</p> <p>7 Q. Do you know whether he or anyone</p> <p>8 else at Coopers & Lybrand was involved in due</p> <p>9 diligence with respect to the acquisition of</p> <p>10 the Graduate hospitals? 11:55:57</p> <p>11 MR. RYAN: Objection.</p> <p>12 Q. AHERF's acquisition?</p> <p>13 A. Well, I guess at that stage it was</p> <p>14 an SDN acquisition, so I'm not sure.</p> <p>15 Q. Yes. If that is indeed what you 11:56:15</p> <p>16 recall about it, fine.</p> <p>17 Do you recall whether anyone at</p> <p>18 Coopers & Lybrand was involved in the</p> <p>19 acquisition process in any of its phases,</p> <p>20 including SDN? 11:56:28</p> <p>21 A. I know Steve Elek was. I had some</p> <p>22 involvement for reviewing the Deloitte & Touche</p> <p>23 work papers. I believe Bill Buettner</p> <p>24 participated in some meetings.</p> <p>25 Mark Kirstein got involved as it 11:56:41</p>	<p style="text-align: right;">Page 653</p> <p>1 A. Yes, they appear to be.</p> <p>2 Q. Do you recall when you took these</p> <p>3 notes?</p> <p>4 A. Not all of them individually. I</p> <p>5 recall sometime in November or late calendar 11:58:45</p> <p>6 year 1996 reviewing Deloitte work papers and</p> <p>7 taking notes. But I also recall at some later</p> <p>8 point going back through them, which may be a</p> <p>9 different time for some of the check marks and</p> <p>10 things like that. 11:58:59</p> <p>11 Q. Was this all done in connection</p> <p>12 with the Graduate hospitals' acquisition by</p> <p>13 AHERF or SDN?</p> <p>14 A. Certainly the original note taking</p> <p>15 was. I just don't know as far as kind of the 11:59:17</p> <p>16 follow-up. I remember referring to them during</p> <p>17 the '97 audit occasionally.</p> <p>18 Q. Do you recall writing anything on</p> <p>19 them during the '97 audit?</p> <p>20 A. I don't know. 11:59:29</p> <p>21 Q. Let me ask you to turn to page</p> <p>22 038078. 038078.</p> <p>23 Are you with me?</p> <p>24 A. Yes.</p> <p>25 Q. At the top of the page you've 11:59:45</p>
<p style="text-align: right;">Page 652</p> <p>1 related to the lease transaction for Omega, as</p> <p>2 we talked yesterday. And I think Steve had</p> <p>3 people working for him. I just don't recall</p> <p>4 who they were.</p> <p>5 Q. Do you recall preparing this memo 11:56:55</p> <p>6 in or about November of 1996?</p> <p>7 A. I recall preparing a memo for Steve</p> <p>8 Elek based on the work that I performed. I</p> <p>9 don't recall this one specifically, but I</p> <p>10 recall preparing a memo. 11:57:10</p> <p>11 Q. Do you have any doubt that this is</p> <p>12 your memo?</p> <p>13 A. No.</p> <p>14 - - - - -</p> <p>15 (Thereupon, Deposition Exhibit 4441</p> <p>16 was marked for purposes of</p> <p>17 identification.)</p> <p>18 - - - - -</p> <p>19 Q. I'm going to hand you now, Miss</p> <p>20 Frazier, a set of handwritten notes that I 11:57:55</p> <p>21 believe you will tell me are yours. We've</p> <p>22 marked them as Exhibit 4441.</p> <p>23 Would you take a moment or two to</p> <p>24 look at the notes and tell me whether they are</p> <p>25 indeed yours? 11:58:10</p>	<p style="text-align: right;">Page 654</p> <p>1 written the word "patient A/R," is that right?</p> <p>2 A. Yes.</p> <p>3 Q. That would refer in these notes to</p> <p>4 patient accounts receivable at Graduate</p> <p>5 hospitals, is that correct, as we've discussed 12:00:01</p> <p>6 them this morning?</p> <p>7 MR. RYAN: Objection.</p> <p>8 A. I don't know if it's in the</p> <p>9 aggregate or just Graduate Hospital. I can't</p> <p>10 tell. 12:00:14</p> <p>11 Q. I'm sorry, I put the word -- or the</p> <p>12 letter S on hospitals to mean it was either the</p> <p>13 Graduate Hospital or any of the Graduate</p> <p>14 hospitals. Is that fair to say?</p> <p>15 A. I don't know if it's referring to 12:00:27</p> <p>16 any of them. It may just be Graduate. I just</p> <p>17 am not sure.</p> <p>18 Q. I think we're communicating, but</p> <p>19 I'm not certain.</p> <p>20 These are a part of your work 12:00:37</p> <p>21 product in connection with Graduate, the</p> <p>22 Graduate acquisition and so, therefore, patient</p> <p>23 A/R here refers to patient A/R at either one of</p> <p>24 or several of the Graduate hospitals. Is that</p> <p>25 fair? 12:00:56</p>

30 (Pages 651 to 654)